

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 PA-04 PRS-01 USIA-15 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

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----- 125500

R 220933Z MAY 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 2435

INFO AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 6326

E.O. 11652: GDS

TAGS: EGEN, ID

SUBJ: GOI BANS FURTHER FOREIGN INVESTMENT IN LOGGING
AND RESTRICTS EMPLOYMENT OF FOREIGNERS IN
LOGGING AND AGRICULTURE

REF: JAKARTA 4070

BEGIN UNCLASSIFIED

1. SUMMARY: GOI ANNOUNCED MAY 1 THAT LOGGING,
INDONESIA'S THIRD LARGEST FOREIGN EXCHANGE EARNER, WILL
BE CLOSED TO FOREIGN INVESTMENT IN FUTURE. HOWEVER,
FOREIGN FIRMS MAY CONTINUE TO SERVE AS OPERATING CON-
TRACTORS FOR DOMESTIC LOGGING COMPANIES AND MAY INVEST
IN WOOD-PROCESSING INDUSTRIES. GOI HAS ALSO ISSUED NEW
REGULATION RESTRICTING FUTURE EMPLOYMENT OF FOREIGNERS IN
FORESTRY AND AGRICULTURAL SECTORS. NEW POLICIES REFLECT
INTEREST OF DOMESTIC GROUPS IN ACQUIRING
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REMAINING FORESTRY CONCESSIONS AND GOI CONCERN

OVER HEAVY EMPLOYMENT OF FOREIGNERS (MAINLY FILIPINOS)
IN FORESTRY SECTOR. EXISTING US AND OTHER FOREIGN
LOGGING INVESTMENTS WILL NOT BE AFFECTED BY NEW POLICY.

END SUMMARY.

2. DECISION TO BAN FURTHER FOREIGN INVESTMENT IN LOGGING
WAS ANNOUNCED TO PRESS BY MINISTER OF INDUSTRY JUSUF
AND CHIEF OF CAPITAL INVESTMENT COORDINATING BOARD BARLI
HALIM AFTER MEETING WITH PRESIDENT SUHARTO MAY 1. HALIM
EXPLAINED THAT PURPOSE OF NEW POLICY, WHICH ALSO FORBIDS
FOREIGN INVESTOR PARTICIPATION IN NEW LOGGING JOINT
VENTURES, IS TO RESERVE PROFITS FROM LOGGING FOR
INDONESIANS. HE ADDED, HOWEVER, THAT FOREIGN CONTRACTORS
MAY CONTINUE TO OPERATE INDONESIA-OWNED CONCESSIONS, IF
THEY INCORPORATE IN INDONESIA AND PAY THEIR TAXES, AND
THAT FOREIGN INVESTMENT WILL STILL BE PERMITTED IN
FORESTRY PROCESSING INDUSTRY.

3. HALIM SAID PRESIDENT SUHARTO STRESSED TO HIM THAT
IT WAS GOVERNMENT POLICY TO ENSURE THAT FORESTS AND OTHER
NATURAL RESOURCES ARE EXPLOITED IN A WAY THAT WILL PROTECT
THEM FOR FUTURE GENERATIONS.

4. NEW INVESTMENT BAN DOES NOT APPLY TO FOREIGN INVEST-
MENTS IN LOGGING THAT HAVE ALREADY BEEN APPROVED.

5. ON MAY 6, FEW DAYS AFTER ANNOUNCEMENT OF BAN ON
FOREIGN INVESTMENT IN LOGGING, DEPARTMENT OF MANPOWER
AND INDUSTRY PUBLISHED DETAILED PRESIDENTIAL DECREE
DATED APRIL 29 RESTRICTING EMPLOYMENT OF NON-RESIDENT
FOREIGNERS IN ALMOST 100 MANAGERIAL, TECHNICAL AND
SKILLED LABOR POSITIONS IN FORESTRY AND AGRICULTURE.
DECREE MAKES NO DISTINCTION BETWEEN DOMESTIC AND FOREIGN
FIRMS AND STIPULATES THAT FIRMS THAT DO NOT INDONESIAIZE
POSITIONS SPECIFIED IN DECREE WITHIN DESIGNATED TIME
(FROM SIX MONTHS TO TWO YEARS) MUST PAY "CONTRIBUTIONS"
OF \$100 FOR EACH MONTH A FOREIGNER REMAINS IN RESTRICTED
POSITION. PROCEEDS FROM THIS \$100 A MONTH LEVY, WHICH
WAS FIRST ANNOUNCED MARCH 26 (REFTEL), ARE TO BE USED TO
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TRAIN INDONESIANS FOR SKILLED POSITIONS, BUT CONTRIBUTION
DOES NOT RELEASE EMPLOYERS FROM OBLIGATION TO TRAIN AND
PLACE INDONESIANS. WE UNDERSTAND \$100 A MONTH LEVY
WILL BE LIMITED TO FORESTRY SECTOR FOR TIME BEING..
OLEND UNCLASSIFIED. BEGIN CONFIDENTIAL

6. COMMENT: BAN ON NEW FOREIGN INVESTMENT IN LOGGING
REFLECTS STRONG DOMESTIC INVESTOR INTEREST IN

REMAINING TIMBER CONCESSIONS AS WELL AS INCREASED DOMESTIC ACCESS TO CAPITAL. CENTRAL AND PROVINCIAL MILITARY INTERESTS ARE HEAVILY INVOLVED IN LOGGING BUSINESS, AS ARE MEMEBERS OF PRESIDENT SUHARTO'S FAMILY AND SOME OF HIS CLOSE ASSOCIATES SUCH AS EX-PRESIDENTIAL ASSISTANT ALI MURTOPO. NEW POLICY WILL HAVE GREATEST EFFECT ON WOULD-BE FILIPINO, TAIWANESE, HONG KONG, MALAYSIAN AND SINGAPOREAN INVESTORS WHO REPRESENT LARGEST FOREIGN ELEMENT IN LOGGING SECTOR. WEYERHAEUSER'S INTEREST IN EXPANDING ITS HOLDINGS IN KALIMANTAN WILL ALSO BE CIRCUMSCRIBED BY NEW POLICY.

7. EXCLUSION OF FOREIGN INVESTORS FROM LOGGING WILL NOT ENSURE BETTER CONSERVATION MEASURES CALLED FOR BY PRESIDENT SUHARTO. WORST OFFENDERS IN THIS AREA ARE CONTRACTORS FROM MALAYSIA, SINGAPORE AND PHILIPPINES WHICH OPERATE INDONESIAN-OWNED CONCESSIONS AND MAY CONTINUE TO DO SO UNDER NEW POLICY. THEY ARE WIDELY-KNOWN FOR DESTRUCTIVE CUTTING PRACTICES, WHEREAS WEYERHAEUSER AND GEORGIA PACIFIC JOINT VENTURES, WHICH OPERATE LARGE CONCESSIONS IN KALIMANTAN, ARE MUCH MORE ATTENTIVE TO CONSERVATION AS MEANS OF PRESERVING THEIR AREAS FOR LONGTERM GAIN.

8. NEW EMPLOYMENT RESTRICTIONS ARE REACTION TO RISING COMPLAINTS ABOUT THOUSANDS OF SKILLED AND SEMI-SKILLED FOREIGN(MOSTLY FILIPINO) WORKERS EMPLOYED IN FORESTRY SECTOR. ALTHOUGH BLAME HAS TENDED TO FOCUS ON FOREIGN INVESTORS, DOMESTIC INVESTORS USING FOREIGN CONTRACTORS ARE WORST OFFENDERS IN FACT. THERE IS CONSIDERABLE DOUBT IN ANY CASE ABOUT REALISM OF IMPOSING SUCH COMPREHENSIVE RULES IN AREA WHERE CIRCUMSTANCES OF INDIVIDUAL INVESTMENTS VARY WIDELY, AND
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EVEN GREATER SKEPTICISM ABOUT ABILITY OF GOVERNMENT TO ENFORCE NEW REGULATIONS. THE REGULATIONS IN ANY CASE WILL HAVE LITTLE IMPACT ON CURRENT US INVESTORS IN FORESTRY WHICH HAVE GOOD RECORDS IN HIRING AND TRAINING INDOENSIANS.
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